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INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 7235
RUEHCV/AMEMBASSY CARACAS PRIORITY 2817
RUEHLP/AMEMBASSY LA PAZ JAN 0850
RUEHPE/AMEMBASSY LIMA PRIORITY 2271
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 3194
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
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SUBJECT: GOE INSTITUTES PRICE CONTROLS ON MILK

REFTEL A: Quito 2114
B: Quito 2095

¶1. (SBU) Summary: The Correa administration instituted its first mandatory price controls January 2, in an attempt to lower rising milk prices. Industrial farmers and milk processors say the new prices don't cover their production costs; subsistence farmers support the controls. The measure could result in an eventual supply shortfall of lower priced processed milk where profits will be squeezed. End Summary.

¶2. (SBU) On January 2, the GOE instituted mandatory price controls for the first time as a move to control the price of milk, blaming speculation for price increases over the past year. This follows September 2007 measures by the GOE to control prices of basic food products through instituting subsidies for flour (ref a) and a ban on the export of rice (ref b). The GOE held meetings with milk producers and processors on the issue before implementing controls, but the two sides were unable to come to agreement on prices.

¶3. (U) Ecuador produces two types of milk - pasteurized milk in bags and long life UHT milk in bags and cartons. The price of pasteurized milk in bags has been fixed at 55c/bag, while the price of UHT milk has been fixed at 60c/bag and 95c/carton. Prices for milk in bags are fixed 10c higher on the coast than in the highlands. According to industry sources, the difference in price is justified because production costs are higher in the coastal region. The price at which farmers can sell milk to the processing industry has also been fixed, at a range of between 28c and 34c/liter.

¶4. (SBU) Farmers with industrial production say the fixed range is not sufficient to cover their costs. Their production costs (for items such as animal feed and fertilizer) have increased between 30 and 50 percent in the last year. On the other hand, subsistence farmers in rural areas (a very small part of the market) are happy with the new price; they previously received only 22-24c/liter for their lower quality milk. Milk processors in Ecuador's non-integrated market echo the concerns of industrial farmers. A worldwide scarcity of powdered milk (which is mixed with liquid milk during processing) has raised prices for this input dramatically over the past year, from about \$2000 per metric ton to about \$5000 per metric ton. With the price controls in place, Embassy Foreign Agricultural Service section analysis is that processors will move towards producing more of the higher priced UHT carton milk, where they can retain better profit margins. This could result in a supply shortfall of the cheaper milk in bags over the next six months, which could negatively impact lower income consumers.

15. (SBU) Farmers from the coastal region met January 7 to discuss the new measure, and issued a statement opposing the controls. Farmers from the highlands (where most milk is produced) met January 9 to discuss the issue, and issued a similar statement. The Ministry of Agriculture has called for a meeting with farmers and processors January 15 to review the price controls and seek a solution.

COMMENT:

16. (SBU) The milk price controls are yet another example of the Correa administration's tendency toward market interventions to control prices of basic goods. The measure is supposed to be temporary (the President has the authority to regulate prices temporarily in special cases), but it is unclear how long the controls will remain in place if input prices continue to rise. September's temporary measure to subsidize flour prices (to be reviewed on a monthly basis) will now continue until March, and the ban on rice exports to Colombia and Peru was recently extended for 90 days. In his radio address January 5, President Correa mentioned the possibility of price controls on rice if prices do not fall. While the milk price control in itself is not an extreme measure, it is not a good sign if this type of control ends up being used more widely.

JEWELL